

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|--------------------------------|--|-----------------------------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Unit Name HOWELL CARNEGIE DISTRICT LIBRARY | County LIVINGSTON |
| Fiscal Year End 6/30/07 | Opinion Date 8/29/07 | Date Audit Report Submitted to State 12/28/07 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

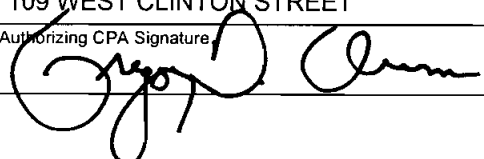
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | |
|--|-------------------------------------|--|------------------------------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | |
| Financial Statements | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | <input checked="" type="checkbox"/> | | |
| Other (Describe) | <input type="checkbox"/> | | |
| Certified Public Accountant (Firm Name) BREDERNITZ, WAGNER & CO., P.C. | | Telephone Number 517-546-2130 | |
| Street Address 109 WEST CLINTON STREET | | City HOWELL | State MI |
| Zip 48843 | | | |
| Authorizing CPA Signature  | | Printed Name GREGORY D. CLUM | License Number 110104127 |

HOWELL CARNEGIE
DISTRICT LIBRARY

FINANCIAL REPORT
June 30, 2007

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BREDERNITZ, WAGNER & CO., P.C.

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INDEPENDENT AUDITORS' REPORT

To the Howell Carnegie
District Library Board
Howell, Michigan

We have audited the accompanying financial statements of the Howell Carnegie District Library as of and for the year ended June 30, 2007, which collectively, comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Howell Carnegie District Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Howell Carnegie District Library, as of June 30, 2007, and the respective changes in financial position, thereof and the budgetary comparisons of the General Fund and the Contribution and Memorials Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Howell Carnegie
District Library Board
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The management's discussion and analysis on pages 3 through 7 and the Defined Benefit Pension Plan Trust information on page 26 are not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Howell Carnegie District Library's basic financial statements. The introductory section and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and other supplemental information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Bredemeyer, Wagner & Co., P.C.

Howell, Michigan
September 28, 2007

HOWELL CARNEGIE DISTRICT LIBRARY

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ended June 30, 2007 and
June 30, 2006
(Unaudited)

Using this Annual Report

This annual report consists of three parts - *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the Library.

- The first five columns of the balance sheet/statement of net assets and the statement of revenue, expenditures, and changes in fund balances/statement of activities include information on the Library's General Fund, Contributions and Memorials Fund, Debt Service Fund, Capital Projects Fund, and the Endowment Fund under the modified accrual method. The modified accrual method basis focuses on the current financial resources and provides a more detailed view about the accountability of the Library's sources and uses of funds.
- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full-accrual method. The full-accrual basis focuses on long-term economic resources.
- The last column provides both *long-term* and *short-term* information about the Library's overall financial status. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. This column tells how these services were financed in the short term as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

HOWELL CARNEGIE DISTRICT LIBRARY

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ended June 30, 2007 and
June 30, 2006
(Unaudited)

Condensed Financial Information

The table below shows key financial information in a condensed format:

| | <u>June 30,</u> <u>2007</u> | <u>June 30,</u> <u>2006</u> |
|--|--------------------------------|--------------------------------|
| Current assets | \$2,467,408 | 2,260,627 |
| Capital assets | <u>5,036,377</u> | <u>5,097,600</u> |
| Total assets | <u>7,503,785</u> | <u>7,358,227</u> |
| Current liabilities | 104,928 | 61,030 |
| Long-term liabilities | <u>202,555</u> | <u>190,528</u> |
| Total liabilities | <u>307,483</u> | <u>251,558</u> |
| Net assets: | | |
| Invested in capital assets, net of debt | 5,036,377 | 5,097,600 |
| Restricted | 243,451 | 279,459 |
| Unrestricted | <u>1,916,474</u> | <u>1,729,610</u> |
| Total net assets | <u>\$7,196,302</u> | <u>7,106,669</u> |
| Revenue: | | |
| Property taxes | \$1,593,904 | 1,875,975 |
| Other | <u>405,607</u> | <u>414,529</u> |
| Total revenue | 1,999,511 | 2,290,504 |
| Expenses | <u>1,909,876</u> | <u>1,840,735</u> |
| Change in net assets | \$ <u>89,635</u> | <u>449,769</u> |

HOWELL CARNEGIE DISTRICT LIBRARY

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ended June 30, 2007 and
June 30, 2006
(Unaudited)

The Library as a Whole

- The Library reports net assets of \$7,196,302 and \$7,106,667 on a full accrual basis, as compared to \$2,362,480 and \$2,199,597 on the modified accrual basis of accounting, for the years ended June 30, 2007 and 2006, respectively.
- The Library's primary source of revenue is from property taxes. Total tax collections were \$1,593,904 and \$1,875,975 representing 79.7% and 81.9% of total revenue for the years ended June 30, 2007 and 2006, respectively.
- Salaries and fringe benefits are the largest overall expenditure of the Library. This expenditure was \$1,072,427 and \$1,038,254, representing 58.3% and 36.8% of the Library's total expenditures for the years ended June 30, 2007 and 2006, respectively.
- Depreciation expense of \$346,403 and \$327,164 represents 18.1% and 17.8% of the Library's total expenses on the full accrual basis, for the years ended June 30, 2007 and 2006, respectively.
- Total expenditures under the modified accrual method of accounting were \$1,836,628 and \$2,824,792 for the years ended June 30, 2007 and 2006, respectively.

The Library's Funds

Our analysis of the Library's funds are included on pages 8 and 9 in the first five columns of the respective statements. The first five columns provide detailed information about the General Fund, Contributions and Memorials Fund, Debt Service Fund, Capital Projects Fund, and the Endowment Fund on a modified accrual basis of accounting, which is a short term perspective measuring the flow of financial resources, - not the Library's operations on a full accrual basis of accounting, which provides a longer term measurement of total economic resources. All the Library's funds are considered major funds.

The overall fund balance of the Library increased \$162,883 during the year ended June 30, 2007. This represents unspent revenue greater than expenses.

HOWELL CARNEGIE DISTRICT LIBRARY

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ended June 30, 2007 and
June 30, 2006
(Unaudited)

Library Budgetary Highlights

The June 30, 2007 General Fund property tax revenues increased by \$110,808 or 7.5% over the prior year fiscal year. Total revenues increased by \$87,068 or 4.8% over the June 30, 2006 fiscal year. So, except for local property taxes, all other sources of revenue decreased from the June 30, 2006 fiscal year.

The June 30, 2007 budgeted revenue for the General Fund was \$1,833,776. The actual audited revenue for the General Fund was \$1,910,323. This is \$76,547 or 4.2% higher than was budgeted.

The June 30, 2007 General Fund expenditures increased by \$51,477 or 3% over the June 30, 2006 fiscal year (when the \$540,000 for the property purchase is subtracted from the June 30, 2006 expenditures).

The June 30, 2007 budgeted expenditures for the General Fund were \$1,852,776. The actual audited General Fund expenditures were \$1,743,030. This is \$109,746 or 6% lower than was budgeted.

The library celebrated its 100th Anniversary in November 2006. Some of the expenditures went toward the various celebrations to honor this event.

The library has worked with a consultant since December 2006 to seek proposals and negotiate a contract to migrate to a new Integrated Library Computer System to replace the current system which is 14 years old. The large expense to install the new system is expected to come in the 2007-08 fiscal year.

Capital Assets & Debt Administration

At the end of the fiscal year, the Library had approximately \$5,036,377 (net of accumulated depreciation) invested in land, building improvements, furniture and equipment, library materials, and construction in progress.

The library purchased property in April 2006 for future additional library parking. A local engineering firm was hired to help the library go through parking lot designs, site plan approval, and get estimates for establishing a parking lot on the vacant land. In the spring of 2007 serious negotiations began between several private and public entities to establish a commuter rail line from Howell to Ann Arbor. This could bring several hundred commuters to downtown Howell every morning and evening. Because the main commuter stop in Howell is expected to be less than 200 feet from the library's vacant lot (where the proposed parking lot will be

HOWELL CARNEGIE DISTRICT LIBRARY

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ended June 30, 2007 and
June 30, 2006
(Unaudited)

going), work on the design and cost for this proposed parking lot was put on hold. In the next year, the library staff and board will work with the City of Howell and other entities to design parking in this northwest quadrant of downtown Howell to accommodate commuters, shoppers, as well as library users.

The aging building and grounds systems are causing regular increases in maintenance costs. Reserve funds are in place to help underwrite some of the replacement costs for a number of big-ticket items such as the heating and cooling systems. However, changes in revenues and expenditures in the future will be needed to adequately maintain and improve the infrastructure as well as it has been done in the last 16 years.

The Library's long-term debt activity consists of accumulated compensated employee absences (sick leave) to be paid to eligible employees if they are sick or qualified for retirement.

Next Year's Budget and Millage Rates

The June 30, 2008 General Fund tax revenues are estimated to increase by \$38,932 or 2.4% over the June 30, 2007 audited tax revenues. All other June 30, 2008 revenues are estimated to decrease from the current year audited revenues. Because conservative estimates are used, past history shows that actual revenues are generally higher than the budgeted revenues.

The June 30, 2008 General Fund expenditures (minus the "Capital Improvement" and "Other" amounts) are budgeted to increase by \$89,989 or 5% over the June 30, 2007 audited expenditures. Because estimated expenditures plan for some "worst case scenarios", past history shows that actual expenditures are generally lower than the budgeted expenditures.

The June 30, 2007 millage rate of .6920 mills remains the same for the June 30, 2008 fiscal year.

Contacting the Library's Management

This financial report is intended to provide our citizens, taxpayers, patrons and donors with a general overview of the Library's finances and to show the Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the director, Kathleen Zaenger, at (517) 546-0720.

HOWELL CARNEGIE DISTRICT LIBRARY
GOVERNMENTAL FUND BALANCE SHEET /
STATEMENT OF NET ASSETS
JUNE 30, 2007

| | General Fund | Contributions and Memorials | Debt Service Fund | Capital Projects | Endowment | Total | Adjustments (Note 9) | Statement of Net Assets |
|---|---------------------|--------------------------------|-------------------------|---------------------|----------------|------------------|-------------------------|----------------------------|
| ASSETS | | | | | | | | |
| Cash | \$ 19,763 | 12,312 | - | - | 200 | 32,275 | - | 32,275 |
| Investments | 1,529,038 | 97,719 | 819 | 358,628 | 248,775 | 2,234,979 | - | 2,234,979 |
| Due from other governments | 182,621 | - | - | - | - | 182,621 | - | 182,621 |
| Prepays | 17,533 | - | - | - | - | 17,533 | - | 17,533 |
| Capital assets, net of accumulated depreciation | - | - | - | - | - | - | 5,036,377 | 5,036,377 |
| Total Assets | \$ 1,748,955 | 110,031 | 819 | 358,628 | 248,975 | 2,467,408 | 5,036,377 | 7,503,765 |
| LIABILITIES | | | | | | | | |
| Liabilities: | | | | | | | | |
| Accounts payable | \$ 63,055 | 17,944 | - | 5,807 | - | 86,806 | - | 86,806 |
| Accrued expenses | 16,122 | - | - | - | - | 16,122 | - | 16,122 |
| Long-term debt: | | | | | | | | |
| Compensated absences (Note 6) | - | - | - | - | - | - | 202,555 | 202,555 |
| Total Liabilities | 81,177 | 17,944 | - | 5,807 | - | 104,928 | 202,555 | 307,483 |
| FUND BALANCE/NET ASSETS | | | | | | | | |
| Fund Balances: | | | | | | | | |
| Reserved for: | | | | | | | | |
| Capital additions | - | - | - | - | 3,755 | 3,755 | (3,755) | - |
| Archives, programs and collections | - | 56,893 | - | - | 12,389 | 69,282 | (69,282) | - |
| Nonexpendable endowments | - | - | - | - | 150,343 | 150,343 | (150,343) | - |
| Debt service | - | - | 819 | - | - | 819 | (819) | - |
| Reserved for other purposes | - | - | - | - | 19,252 | 19,252 | (19,252) | - |
| Unreserved: | | | | | | | | |
| Designated - capital additions | 312,900 | - | - | - | - | 312,900 | (312,900) | - |
| Undesignated reported in: | | | | | | | | |
| General fund | 1,354,878 | - | - | - | - | 1,354,878 | (1,354,878) | - |
| Special revenue funds | - | 35,194 | - | - | - | 35,194 | (35,194) | - |
| Capital project fund | - | - | - | 352,821 | - | 352,821 | (352,821) | - |
| Permanent fund | - | - | - | - | 63,236 | 63,236 | (63,236) | - |
| Total Fund Balances | 1,667,778 | 92,087 | 819 | 352,821 | 248,975 | 2,362,480 | (2,362,480) | - |
| Total Liabilities and Fund Balances | \$ 1,748,955 | 110,031 | 819 | 358,628 | 248,975 | 2,467,408 | | |
| Net assets: | | | | | | | | |
| Invested in capital assets | | | | | | | 5,036,377 | 5,036,377 |
| Restricted for: | | | | | | | | |
| Endowments - nonexpendable | | | | | | | 150,343 | 150,343 |
| Endowments - expendable | | | | | | | 35,396 | 35,396 |
| Debt service | | | | | | | 819 | 819 |
| Other purposes | | | | | | | 56,893 | 56,893 |
| Unrestricted | | | | | | | 1,916,474 | 1,916,474 |
| Total net assets | | | | | | | 7,196,302 | 7,196,302 |

The notes to financial statements are an integral part of these statements.

HOWELL CARNEGIE DISTRICT LIBRARY
STATEMENT OF GOVERNMENTAL REVENUE,
EXPENDITURES, AND CHANGES IN
FUND BALANCE / STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

| | General Fund | Contributions and Memorials | Debt Service Fund | Capital Project Equipment | Endowment | Total | Adjustments (Note 9) | Statements of Activities |
|--|---------------------|--------------------------------|-------------------------|---------------------------------|----------------|------------------|-------------------------|-----------------------------|
| Revenues: | | | | | | | | |
| Taxes | \$ 1,591,068 | - | 2,836 | - | - | 1,593,904 | - | 1,593,904 |
| State grants | 42,768 | - | - | - | - | 42,768 | - | 42,768 |
| Charges for services | 10,632 | - | - | - | - | 10,632 | - | 10,632 |
| Fines and forfeitures | 190,318 | - | - | - | - | 190,318 | - | 190,318 |
| Investment income | 66,251 | 3,856 | 221 | 19,429 | 12,957 | 102,714 | - | 102,714 |
| Contributions and memorials | - | 48,779 | - | - | - | 48,779 | - | 48,779 |
| Other revenue and reimbursements | 9,286 | - | - | - | 1,110 | 10,396 | - | 10,396 |
| Total general revenues | <u>1,910,323</u> | <u>52,635</u> | <u>3,057</u> | <u>19,429</u> | <u>14,067</u> | <u>1,999,511</u> | <u>-</u> | <u>1,999,511</u> |
| Expenditures: | | | | | | | | |
| Books and audio visual | \$ 266,999 | 1,490 | - | - | - | 268,489 | (216,864) | 51,625 |
| Communications | 18,493 | - | - | - | - | 18,493 | - | 18,493 |
| Contracted services | 10,468 | - | - | - | - | 10,468 | - | 10,468 |
| Fringe benefits | 137,067 | - | - | - | - | 137,067 | - | 137,067 |
| Insurance | 24,759 | - | - | - | - | 24,759 | - | 24,759 |
| Membership fees | 986 | - | - | - | - | 986 | - | 986 |
| Office supplies | 6,726 | - | - | - | - | 6,726 | - | 6,726 |
| Operating supplies | 62,258 | 2,151 | - | - | - | 64,409 | - | 64,409 |
| Other | 2,829 | 13,022 | 7,031 | - | - | 22,882 | - | 22,882 |
| Payroll | 870,131 | - | - | - | - | 870,131 | 12,027 | 882,158 |
| Payroll taxes | 65,229 | - | - | - | - | 65,229 | - | 65,229 |
| Printing and publishing | 25,682 | - | - | - | - | 25,682 | - | 25,682 |
| Professional services | 5,800 | - | - | - | - | 5,800 | - | 5,800 |
| Repairs and maintenance | 54,938 | - | - | - | - | 54,938 | - | 54,938 |
| Taxes and chargebacks | 21,070 | - | - | - | - | 21,070 | - | 21,070 |
| Training and education | 20,698 | - | - | - | - | 20,698 | - | 20,698 |
| Transportation | 38 | - | - | - | - | 38 | - | 38 |
| Utilities | 113,210 | - | - | - | - | 113,210 | - | 113,210 |
| Capital outlay | 35,849 | 30,534 | - | 39,370 | - | 105,553 | (68,318) | 37,235 |
| Depreciation | - | - | - | - | - | - | 346,403 | 348,403 |
| Total Expenditures | <u>1,743,030</u> | <u>47,197</u> | <u>7,031</u> | <u>39,370</u> | <u>-</u> | <u>1,836,628</u> | <u>73,248</u> | <u>1,909,876</u> |
| Excess (Deficiency) of Revenues over (under) Expenditures | 167,293 | 5,438 | (3,974) | (19,941) | 14,087 | 162,883 | (73,248) | 89,635 |
| Fund Balances - Beginning | <u>1,500,485</u> | <u>86,649</u> | <u>4,793</u> | <u>372,762</u> | <u>234,908</u> | <u>2,199,597</u> | <u>4,907,070</u> | <u>7,106,667</u> |
| Fund Balances - Ending | <u>\$ 1,667,778</u> | <u>92,087</u> | <u>819</u> | <u>352,821</u> | <u>248,975</u> | <u>2,382,480</u> | <u>4,833,822</u> | <u>7,196,302</u> |

HOWELL CARNEGIE DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity:

The Howell Carnegie District Library (the Library) was organized in 1988 under the provisions of Public Act 164 of 1955, and is considered a local governmental unit. The Howell Carnegie District Library officially amended its Articles of Incorporation to be known as the Howell Carnegie District Library in March of 2002.

The District Library's borders encompass the Library of Howell and portions of the following townships included in the Howell Public School District in 1988; the Townships of Brighton, Cohoctah, Deerfield, Genoa, Hamburg, Handy, Howell, Iosco, Marion and Oceola. Properties in each governmental unit are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due February 14 with the final collection date of February 28 before they are added to the county tax rolls.

The Library has determined that no entities should be consolidated into its basic financial statements as component units. The criteria for including a component unit include entities for which the government is considered to be financially accountable. Therefore, the reporting entity consists only of the primary government.

Library- Wide and Fund Financial Statements:

The Library-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

Major individual governmental funds are reported as separate columns in the fund financial statements.

NOTES TO FINANCIAL STATEMENTS (Continued)

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The Library-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes received, intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

The Library reports the following major governmental funds:

NOTES TO FINANCIAL STATEMENTS (Continued)

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The *General Fund* is the Library's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Contributions and Memorials Fund* accounts for resources accumulated that are restricted to expenditures identified by the contributor.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of the Library.

The *Capital Project-Equipment Fund* accounts for the resources and major capital equipment purchases of the Library.

The *Endowment Fund* accounts for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support specific library programs.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the Library-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Library has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the Library-wide financial statements.

When both restricted and unrestricted resources are available for use, it is the Library's policy to use restricted resources first, then unrestricted resources as they are needed. The exception to this policy lies in the area of the endowment fund in which available spendable resources have not been appropriated.

NOTES TO FINANCIAL STATEMENTS (Continued)

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deposits and Investments:

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Library to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury and agencies, certain commercial paper, repurchase agreements, bankers' acceptances, and mutual funds composed of otherwise legal investments.

Investments are reported at fair value.

Receivables and Payables:

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). There were no such interfund loans outstanding as of year-end. All other outstanding balances between funds are reported as "due to/from other funds".

Capital Assets:

Capital assets, which include buildings, equipment, furniture and fixtures, and materials are reported in the Statement of Net Assets column in the basic financial statements. Capital assets are defined by the Library as assets with an initial, individual cost of more than \$5,000, and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

NOTES TO FINANCIAL STATEMENTS (Continued)

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|----------------------------|--------------|
| Buildings and improvements | 15 - 50 |
| Equipment | 5 - 10 |
| Furniture and fixtures | 5 - 20 |
| Materials | 3 - 7 |

Compensated Absences:

The Library allows employees to accumulate unused compensated absences. The Library allows employees up to 720 hours of sick time. Vacation time lapses on the employees' anniversary date one year from the date earned. The Library's liability for compensated absences is included in the government-wide financial statements.

Fund Equity:

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

Annual budgets are adopted, on a basis consistent with generally accepted accounting principles (GAAP),

NOTES TO FINANCIAL STATEMENTS (Continued)

Note 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Concluded)

for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The General and Special Revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with GAAP, and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted and as amended by the Board. The budget for the General Fund is adopted on a categorical level, and the budgets for Special Revenue Funds are adopted on a fund basis.

Note 3. DEPOSITS AND INVESTMENTS

| | Cash and Cash <u>Equivalents</u> | <u>Investments</u> | <u>Total</u> |
|-------------------------|--|--------------------|------------------|
| Statement of Net Assets | | | |
| Deposits | \$1,090,741 | - | 1,090,741 |
| Petty cash | 255 | - | 255 |
| Commercial paper | <u>-</u> | <u>1,176,258</u> | <u>1,176,258</u> |
| Total | <u>\$1,090,996</u> | <u>1,176,258</u> | <u>2,267,254</u> |

Michigan law authorized the Library to deposit and invest in:

1. Bonds, bills or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
2. Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.

NOTES TO FINANCIAL STATEMENTS (Continued)

Note 3. DEPOSITS AND INVESTMENTS (Continued)

4. Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligations repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
5. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
6. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The library chooses to disclose its investments by specifically identifying each. As of year-end, the Library had the following deposits and investments.

| <u>Deposit/ Investment</u> | <u>Maturity</u> | <u>Fair Value</u> | <u>Rating</u> |
|-----------------------------------|-----------------|--------------------|---------------|
| Bank deposits and money markets | N/A | \$1,090,741 | N/A |
| Daimler Chrysler commercial paper | <1 year | <u>1,176,258</u> | A1/P1 |
| | | <u>\$2,266,999</u> | |

Investment and Deposit Risk

Interest Rate Risk - State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of investments above. The Library's investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturity dates for investments, as applicable, are noted above.

Credit Risk - State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Library's

NOTES TO FINANCIAL STATEMENTS (Continued)

Note 3. DEPOSITS AND INVESTMENTS (Concluded)

investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year-end.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned. State law does not require and the Library does not have a policy for deposit custodial credit risk. The total deposits were reflected in the accounts of the bank (without recognition of checks written, but not yet cleared, or of deposits in transit) at \$1,100,521. Of that amount, \$100,000 was covered by federal depository insurance and \$1,000,521 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit risk - Investments. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Library does not have a policy for investment custodial credit risk. The Library's total investments of \$1,176,258 are in short term commercial paper rated A-1 by a national rating agency. Of this amount, \$500,000 was covered by Securities Investor Protection Corporation insurance and \$676,258 was exposed to custodial credit risk because it was uninsured and uncollateralized. These investments are in short-term investment pools that are registered with Securities Exchange Commission (the "SEC"). The investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. The short-term investments are not required to be classified according to custodial credit risk since they are not evidenced by securities that exist in physical or book entry form.

Concentration of Credit Risk - State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Library's investment policy does not have specific limits in excess of State law on concentration of credit risk. All investments held at year-end are reported above.

Note 4. RECEIVABLES

Receivables as of year-end for the Library's individual major funds are considered 100% collectable and are to be collected

NOTES TO FINANCIAL STATEMENTS (Continued)

Note 4. RECEIVABLES (Concluded)

within one year. Accordingly, no allowance for uncollectible receivables has been established.

Note 5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2007 was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|------------------|------------------|---------------------------|
| Governmental activities | | | | |
| Capital assets not depreciated: | | | | |
| Land | \$ 550,174 | 9,481 | - | 559,655 |
| Construction in progress | <u>25,600</u> | <u>-</u> | <u>-</u> | <u>25,600</u> |
| Total capital assets not being depreciated | <u>575,774</u> | <u>9,481</u> | <u>-</u> | <u>585,255</u> |
| Capital assets being depreciated: | | | | |
| Building and improvements | 4,493,059 | - | - | 4,493,059 |
| Equipment | 828,915 | 57,811 | - | 886,726 |
| Furniture and fixtures | 583,334 | - | - | 583,334 |
| Materials | <u>1,202,007</u> | <u>217,888</u> | <u>(100,408)</u> | <u>1,319,487</u> |
| Total capital assets being depreciated | <u>7,107,315</u> | <u>275,699</u> | <u>(100,408)</u> | <u>7,282,606</u> |
| Less accumulated depreciation | | | | |
| Buildings and improvements | (890,828) | (94,139) | - | (984,967) |
| Equipment | (728,023) | (39,716) | - | (767,739) |
| Furniture and fixtures | (231,597) | (38,852) | - | (270,449) |
| Materials | <u>(735,041)</u> | <u>(173,696)</u> | <u>100,408</u> | <u>(808,329)</u> |
| Total accumulated depreciation | <u>(2,585,489)</u> | <u>(346,403)</u> | <u>100,408</u> | <u>(2,831,484)</u> |
| Total capital assets being depreciated, net | <u>4,521,826</u> | <u>(70,704)</u> | <u>-</u> | <u>4,451,122</u> |
| Governmental activities capital assets, net | <u>\$5,097,600</u> | <u>(61,223)</u> | <u>-</u> | <u>5,036,377</u> |

NOTES TO FINANCIAL STATEMENTS (Continued)

Note 6. ACCUMULATED ABSENCES

Compensated absences are typically liquidated through sources from the general fund.

| | <u>Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> |
|-------------------------|-------------------|------------------|-------------------|----------------|
| Compensated absences | \$ <u>190,528</u> | <u>12,027</u> | <u>-</u> | <u>202,555</u> |

Note 7. RISK MANAGEMENT

The Library is exposed to various risks of loss related to torts; theft of, damage to, and distribution of assets; errors and omissions; injuries to employees and natural disasters. The Library has purchased commercial insurance for comprehensive liability, motor vehicle physical damage and property and crime coverage through the Michigan Municipal League (MML). Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

All claims of the Library, after meeting the deductible requirements, are paid by MML. MML is responsible for any claims in excess of deductible amounts up to a maximum limit of \$5,000,000. The Library's policy is to recognize the annual premium cost as expenditures. The expenditures for the year ended June 30, 2007 were \$24,759.

The Library is also a member of the Michigan Municipal Workers Compensation Fund. Premiums from participants are combined to provide all members with coverage for claims. The premiums and interest thereon are used to pay claims, administrative expenses and to purchase reinsurance to protect the fund from exceptionally large losses. In the event of a deficit in a fund year, assessments could be made against the members. No such assessments have been made against the Library in any of the past three fiscal years. The Library's policy is to recognize the annual premium cost as expenditures. The expenditures for the year ended June 30, 2007 were \$7,133.

Note 8. DEFINED BENEFIT PENSION PLAN

The following brief description of the Library's Employee's Retirement Plan (the "Plan") is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

A. Plan Description

NOTES TO FINANCIAL STATEMENTS (Continued)

Note 8. DEFINED BENEFIT PENSION PLAN (Continued)

The Library's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Library participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS.

The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling 800-767-6377.

B. Eligibility

The Plan provides eligible participants with retirement benefits. All retirement benefits fully vest at age 60 with ten years of credited service. Employees may retire with reduced benefits at age 55 with 15 years of credited service and age 50 with 25 years of credited service. Annual retirement benefits are payable monthly in an amount equal to 2.0% of the retirees final average compensation.

At December 31, 2006 the Plan Participants consisted of:

| | |
|--|-----------|
| Retirees and beneficiaries currently receiving benefits, terminated vested not receiving benefits and long-term disabled employees | 3 |
| Current employees | <u>9</u> |
| Total | <u>12</u> |

C. Required Contributions

The Library is required to contribute at an actuarially determined rate, which was 8.78% for the year ended June 30, 2007. Employees are currently not required to contribute to the Plan. The contribution requirements of the Library are established, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Library, depending on the MERS contribution program adopted by the Library.

D. Summary of Significant Accounting Policies

NOTES TO FINANCIAL STATEMENTS (Continued)

Note 8. DEFINED BENEFIT PENSION PLAN (Continued)

1. Method used to value assets

The actuarial value of assets is determined on the basis of a method that calculates expected investment income at the valuation rate of return and adds a portion of the difference between the expected investment income and actual investment income earned on a market value basis. The difference in investment income between expected return and market return is recognized over a 5-year period at the rate of 20% per year.

2. Annual pension cost and net pension obligations

The Library's annual pension cost and net pension obligation to the pension plan for the current year was as follows:

| | June 30, 2007 |
|--|--------------------|
| Annual required contribution/pension cost | \$ 33,480 |
| Contribution made | <u>(33,480)</u> |
| | |
| Increase(decrease) in net pension obligation | - |
| Net pension obligation, beginning of year | <u>-</u> |
| | |
| Net pension obligation, end of year | <u><u>\$ -</u></u> |

The annual required contribution for the current year was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. Benefits are funded on a level percentage of earnings from each participant's date of participation to assumed retirement date. The effect of plan improvements and changes in assumptions are amortized over 30 years. The actuarial assumptions included (a) 8% investment rate of return on the investment, compounded annually and (b) projected salary increases of 4.5% per year compounded annually. There is no assumption for cost of living or inflationary adjustments. Concentrations of investments in a single organization of 5% or more cannot be determined due to the pooled nature of the fund.

E. Trend Information

| Three Year Trend Information | | | |
|------------------------------|---------------------------------|-------------------------------------|------------------------------|
| Year | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
| 06/30/2005 | 43,492 | 100% | - |

NOTES TO FINANCIAL STATEMENTS (Concluded)

Note 8. DEFINED BENEFIT PENSION PLAN (Concluded)

| | | | |
|------------|--------|------|---|
| 06/30/2006 | 37,650 | 100% | - |
| 06/30/2007 | 33,480 | 100% | - |

Note 9. RECONCILIATION of FUND FINANCIAL STATEMENTS to GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total fund balance and the net change in fund balance of the Library's governmental fund differs from the net assets and changes in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance. The following are reconciliations of fund balance to net assets and the net change in fund balance to the net change in assets.

| | |
|--|-------------|
| Total Fund Balance - Modified Accrual Basis | \$2,362,480 |
| Amounts reported in the statement of net assets are different because: | |

| | |
|--|------------------|
| Capital assets are not financial resources, and are not reported in the funds | 5,036,377 |
| Compensated absences are included as a liability | <u>(202,555)</u> |

| | |
|---|--------------------|
| Net Assets of General Fund - Full Accrual Basis | <u>\$7,196,302</u> |
|---|--------------------|

| | |
|--|------------|
| Net Change in Fund Balances - Modified Accrual Basis | \$ 162,883 |
|--|------------|

Amounts reported in the statement of activities are different because:

Capital outlays are reported as expenditures in statement of revenue, expenditures, and changes in fund balance, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

| | |
|--|------------------|
| Library books and materials | 216,864 |
| Maintenance, supplies and capital outlay | 68,318 |
| Accumulated benefits adjustment | (12,027) |
| Depreciation | <u>(346,403)</u> |

| | |
|--|------------------|
| Change in Net Assets of General Fund - Full Accrual Basis | \$ <u>89,635</u> |
|--|------------------|

HOWELL CARNEGIE DISTRICT LIBRARY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE

GENERAL FUND
YEAR ENDED JUNE 30, 2007

| | Original Budget | Final Amended Budget | Actual Balances | Variance Favorable (Unfavorable) |
|--------------------------------------|---------------------|----------------------------|--------------------|--|
| Revenue | | | | |
| Property taxes | \$ 1,550,000 | 1,550,000 | 1,591,068 | 41,068 |
| State shared revenue | 29,255 | 29,255 | 42,768 | 13,513 |
| Charges for services | 10,650 | 10,650 | 10,632 | (18) |
| Fines and forfeitures | 185,000 | 185,000 | 190,318 | 5,318 |
| Investment income | 56,000 | 56,000 | 66,251 | 10,251 |
| Other revenue | 2,871 | 2,871 | 9,286 | 6,415 |
| Total Revenues | <u>1,833,776</u> | <u>1,833,776</u> | <u>1,910,323</u> | <u>76,547</u> |
| Expenditures | | | | |
| Salaries and wages | 888,500 | 888,500 | 870,131 | 18,369 |
| Employee benefits | 157,100 | 157,100 | 137,067 | 20,033 |
| Payroll taxes | 67,970 | 67,970 | 65,229 | 2,741 |
| Program materials | 268,500 | 268,500 | 266,999 | 1,501 |
| Operating supplies | 169,200 | 188,200 | 158,780 | 29,420 |
| Repairs and maintenance | 199,400 | 199,400 | 192,907 | 6,493 |
| Contracted services | 28,750 | 28,750 | 16,268 | 12,482 |
| Capital outlay | 54,356 | 54,356 | 35,649 | 18,707 |
| Total Expenditures | <u>1,833,776</u> | <u>1,852,776</u> | <u>1,743,030</u> | <u>109,746</u> |
| Excess of Revenues Over Expenditures | - | (19,000) | 167,293 | 186,293 |
| Fund Balance - Beginning of year | <u>1,500,485</u> | <u>1,500,485</u> | <u>1,500,485</u> | - |
| Fund Balance - End of year | <u>\$ 1,500,485</u> | <u>1,481,485</u> | <u>1,667,778</u> | <u>186,293</u> |

HOWELL CARNEGIE DISTRICT LIBRARY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE

CONTRIBUTIONS AND MEMORIALS
YEAR ENDED JUNE 30, 2007

| | Original Budget | Final Amended Budget | Actual Balances | Variance Favorable (Unfavorable) |
|--------------------------------------|--------------------|----------------------------|--------------------|--|
| Revenue | | | | |
| Contributions and memorials | \$ 27,800 | 27,800 | 48,779 | 20,979 |
| Investment income | 2,450 | 2,450 | 3,856 | 1,406 |
| Other revenue | <u>26,455</u> | <u>27,810</u> | <u>-</u> | <u>(27,810)</u> |
| Total Revenues | <u>56,705</u> | <u>58,060</u> | <u>52,635</u> | <u>(5,425)</u> |
| Expenditures | | | | |
| Program materials | 1,500 | 1,500 | 1,490 | 10 |
| Operating supplies | 2,200 | 2,200 | 2,151 | 49 |
| Other expenditures | 26,455 | 19,859 | 13,022 | 6,837 |
| Capital outlay | <u>26,550</u> | <u>33,146</u> | <u>30,534</u> | <u>2,612</u> |
| Total Expenditures | <u>56,705</u> | <u>56,705</u> | <u>47,197</u> | <u>9,508</u> |
| Excess of Revenues Over Expenditures | - | 1,355 | 5,438 | 4,083 |
| Fund Balance - Beginning of year | <u>86,649</u> | <u>86,649</u> | <u>86,649</u> | <u>-</u> |
| Fund Balance - End of year | <u>\$ 86,649</u> | <u>88,004</u> | <u>92,087</u> | <u>4,083</u> |

HOWELL CARNEGIE DISTRICT LIBRARY

REQUIRED SUPPLEMENTARY INFORMATION
UNAUDITED

DEFINED BENEFIT PENSION PLAN TREND INFORMATION

SCHEDULE OF FUNDING PROGRESS

| Actuarial Valuation (Date) | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) -Entry Age (b) | Unfunded AAL (UAAL) (b/a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a) /c) |
|----------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 12/31/02 | 415,314 | 575,738 | 160,424 | 72% | 310,771 | 52% |
| 12/31/03 | 473,470 | 660,975 | 187,505 | 72% | 360,586 | 52% |
| 12/31/04 | 530,856 | 636,295 | 105,439 | 83% | 351,463 | 30% |
| 12/31/05 | 601,542 | 754,427 | 152,885 | 80% | 390,422 | 39% |
| 12/31/06 | 678,556 | 771,969 | 93,413 | 88% | 388,891 | 24% |

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HERBERT P. WAGNER, JR., CPA

To the Board of Trustees and
the Director of the
Howell Carnegie District Library
of Howell, Michigan

In planning and performing our audit of the financial statements of the Howell Carnegie District Library as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Howell Carnegie District Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as identified above.

To the Board of Trustees and
the Director of the
Howell Carnegie District Library
Page 2

However, we noted several matters that are opportunities for strengthening internal controls and operating efficiency, as follows:

Status of prior year matters:

1. It was noted in a prior audit that actual appropriations were in excess of budgeted amounts. In accordance with current State of Michigan guidelines, this would be considered a violation of Public Act 2.

A recommendation was made for management monitor and update budgeted amounts through board approval at least on a quarterly basis.

Status: Implemented.

2. It was noted that employees did not authorize hours worked on the Library's standard time logs. In addition it was noted that the standard time logs contained the vested paid time off hours that may be vulnerable to employee manipulation.

A recommendation was made that employees initial the Library's standard time logs to indicate approval of hours worked. In addition, we would recommend that the running vested paid time off also be tracked in a system that is separate from employee access and reconciled to the amounts reported on the standard time log on a periodic basis.

Status: Implemented.

Current year recommendations:

1. During the audit it was noted that the bank listed a person as being an authorized signer, when in fact that person is no longer affiliated with the organization.

Only current authorized employees should be responsible for such an important control over cash disbursements. In an effort to maintain strong controls, we suggest that management annually review the authorized check signers on record with the bank and make any necessary updates as soon as possible.

It is acknowledged that the organization felt it had taken proper steps to ensure the proper people are listed at the bank as being

To the Board of Trustees and
the Director of the
Howell Carnegie District Library
Page 3

authorized signers, however, the confirmation process used during the audit indicated the discrepancy.

2. During our test of deposits we found that deposits are not being made on a timely basis.

It is important that the receipt of all money by Library personnel be deposited in a timely manner. Consideration should be given to adopting a policy that governs how often deposits should be made and the procedures to be followed. This will help reduce the possibility of theft and will safeguard cash receipted by library personnel.

3. In reviewing the checking account, it was noted that outstanding checks over 60 days are listed on the bank reconciliation.

Outstanding checks that are more than 60 days old should be canceled as a part of control over cash disbursements. These outstanding checks should be investigated, adjusted for separately, and payment stopped at the bank, as considered necessary.

This communication is intended solely for the information and use of the Board of Trustees of the Howell Carnegie District Library, management, and others within the administration and is not intended to be and should not be used by anyone other than these specified parties.

Bredert, Wagner & Co., P.C.

Howell, Michigan
September 28, 2007